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9 **UNITED STATES BANKRUPTCY COURT**

10 **FOR THE DISTRICT OF NEVADA**

11 In re:

12 SPECIALTY TRUST, INC., et al.¹

13 Affects this Debtor
14 Affects all Debtors
15 Affects Specialty Acquisition Corp.
 Affects SAC II
 Affects SAC D-1, LLC

Chapter 11

**Jointly Administered under
Case No. 10-51432-GWZ**

Case Nos:

10-51432-GWZ
10-51437-GWZ
10-51440-GWZ
10-51441-GWZ

**PACHULSKI STANG ZIEHL & JONES
LLP'S FIRST INTERIM APPLICATION
FOR COMPENSATION AND
REIMBURSEMENT OF EXPENSES FOR
THE INTERIM FEE PERIOD ENDING
SEPTEMBER 30, 2010**

Hearing Date: December 14, 2010
Hearing Time: 2:00 p.m.

28 ¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, if applicable, are: Specialty Trust, Inc. (2463); Specialty Acquisition Corp. (3680); SAC II (2463); and SAC D-1, LLC (1858).

SUMMARY OF INTERIM APPLICATION INFORMATION

1 Name of Applicant: Pachulski Stang Ziehl & Jones LLP
 2 Authorized to Provide Professional The Debtors and Debtors in Possession
 3 Services to:
 4 Date of Retention: April 20, 2010
 5 Period for which Compensation April 20, 2010 – September 30, 2010
 6 And Reimbursement is sought:
 7 Amount of Fees requested for approval and \$1,093,940.00
 8 Allowance as actual, reasonable, and necessary:
 9 Amount of Expense Reimbursement requested \$42,157.95
 10 for approval and allowance as actual,
 11 reasonable, and necessary: (net of write-offs)
 12 Total Compensation requested: \$1,136,097.95
 13 Voluntary Fee Reductions taken prior to filing \$59,490.50 + 50% of non-working travel
 14 Monthly Applications expenses
 15 This is a(n): interim application final application

MONTHLY FEE STATEMENT SUBMISSIONS

Application Period	Fees Incurred (100%)	Fees Incurred (80%)	Expenses Incurred (100%)	Total Fees & Costs (100% Fees + 100% Costs)	Amount Requested in Monthly Fee Statements (80% Fees + 100% Costs)	Amounts Received from Debtors to Date
04/20/10 – 04/30/10	74,355.00 ²	59,484.00	733.83	75,088.83	60,217.83	60,217.83
05/01/10 – 05/31/10	230,667.00 ³	184,533.60	17,919.75	248,586.75	202,453.35	185,620.95
06/06/10 – 06/30/10	274,154.00	219,323.20	4,027.15	278,181.15	223,350.35	223,350.35
07/01/10 – 07/31/10	184,563.50	147,650.80	9,095.95	193,659.45	156,746.75	156,746.03
08/01/10 – 08/31/10	221,929.50	177,543.60	9,164.50	231,094.00	186,708.10	186,708.10

27 _____
 28 ² This amount represents a reduction of fees of \$3,016.50 pursuant to an agreement with the US Trustee to resolve its informal dispute of PSZJ's April fees.

29 ³ The US Trustee has informally disputed \$21,040.50 of fees requested in May. This dispute has yet to be resolved, therefore, the disputed amount has not been deducted from this fee amount.

1	09/01/10 – 09/30/10	108,271.00	86,616.80	1,788.34	110,059.34	88,405.14	0.00
2	Totals	1,093,940.00	875,152.00	42,729.52⁴	1,136,669.52	917,881.52	812,643.26

SUMMARY OF PROFESSIONALS⁵
April 20, 2010 through September 30, 2010

5	Attorney	Hourly Rate	Application Hours	Total Fees
6	Elissa A. Wagner	495.00	87.10	\$ 43,114.50
7	Ellen M. Bender	347.50	5.00	\$ 1,737.50
8	Ellen M. Bender	695.00	435.50	\$302,672.50
9	Gillian N. Brown	515.00	0.30	\$50,901.54.5
10	Ira D. Kharasch	41.50	1.50	\$ 62.25
11	Ira D. Kharasch	412.50	16.60	\$ 6,847.50
12	Ira D. Kharasch	750.00	1.60	\$ 1,200.00
13	Ira D. Kharasch	825.00	505.20	\$416,790.00
14	Jonathan J. Kim	575.00	6.30	\$ 3,622.50
15	Robert M. Saunders	550.00	8.00	\$ 4,400.00
16	Scotta E. McFarland	575.00	197.20	\$113,390.00
17	Stephen J. Kahn	347.50	4.10	\$ 1,424.75
18	Stephen J. Kahn	695.00	10.30	\$ 7,158.50
19	Victoria A. Newmark	625.00	250.40	\$156,500.00
20	Subtotal		1,529.10	\$1,058,971.40
21	Blended Rate (Attorneys only)	692.61		

15	Paraprofessional	Hourly Rate	Application Hours	Total Fees
16	Beth D. Dassa	235.00	50.90	\$11,961.50
17	Felice S. Harrison	235.00	0.50	\$ 117.50
18	Patricia J. Jeffries	235.00	109.40	\$25,709.00
19	Shawn A. Quinlivan	235.00	0.40	\$ 94.00
20	Subtotal		161.20	\$37,882.00
21	TOTAL		1,690.30	\$1,096,956.50
22	Combined Blended Rate (Attorneys and Paraprofessionals)	648.97		

SUMMARY OF DISBURSEMENTS
April 20, 2010 through September 30, 2010

22	EXPENSES	RATE	TOTAL EXPENSE
23	Air Fare	Actual Rate	\$3,129.90
24	Airport Parking	Actual Rate	\$ 317.83
25	Auto Travel Expense	Actual Rate	\$ 196.36
26	Conference Call	Actual Rate	\$ 392.94
27	Federal Express	Actual Rate	\$4,267.87
28	First Legal Atty/Messenger	Actual Rate	\$ 95.50
	Guest Parking	Actual Rate	\$ 79.15

⁴ This amount does not reflect write-offs applied herein.

⁵ These amounts do not reflect any fee reductions as a result of US Trustee disputes.

EXPENSES	RATE	TOTAL EXPENSE
1 Hotel Expense	Actual Rate	\$1,273.91
2 Lexis/Nexis - Legal Research	Actual Rate	\$ 611.07
3 Outside Reproduction Expense	Actual Rate	\$5,471.87
4 Outside Services	Actual Rate	\$4,553.29
5 Overtime*	Actual Rate	\$ 444.53
6 Pacer - Court Research	Actual Rate	\$ 350.96
7 Postage	Actual Rate	\$3,125.87
8 Reproduction Expense	@ \$.20 per page	\$9,828.60
9 Reproduction/ Scan Copy	@ \$.10 per page	\$1,953.60
10 Research	Actual Rate	\$ 166.00
11 Transcript	Actual Rate	\$2,682.75
12 Travel Expense	Actual Rate	\$ 619.15
13 Westlaw - Legal Research	Actual Rate	\$3,041.33
14 Working Meals*	Actual Rate	\$ 127.04
15 Subtotal		\$42,729.52
16 *Less Write-Offs		< \$571.57 >
17 TOTAL		\$42,157.95

Pursuant to Sections 330 and 331 of Title 11 of the United States Code (the “Bankruptcy Code”), Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and this Court’s *Order Pursuant to 11 U.S.C. §§ 105(a) and 331, Fed. R. Bankr. P. 2016 Authorizing and Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals* entered on June 17, 2010 [Docket No. 217] (the “Compensation Order”), Pachulski Stang Ziehl & Jones LLP (“PSZJ”) or “Applicant”), general bankruptcy counsel for the above-captioned debtors and debtors in possession (the “Debtors”), hereby files this application (the “First Interim Fee Application” or “Application”) seeking entry of an order approving the allowance and authorizing payment of interim compensation in the amount of \$1,088,391.00 in fees and \$42,157.95⁶ in expenses, totaling \$1,130,548.95 (the “Requested Compensation”). The Requested Compensation reflects the following reductions to PSZJ’s fees: (1) approximately \$59,490.00 in voluntary reductions as reflected in certain of PSZJ’s monthly interim fee and expense statements filed with the Court (the “Monthly Fee Statements”) [Docket Nos. 316, 325, 410, 417, and 452]; (2) a \$3,016.50 reduction pursuant to an agreement with the United States Trustee (the “UST”) as set forth in the *Certificate Regarding Pachulski Stang Ziehl & Jones’ Monthly Fee Applications for the Period April 20, 2010 Through April 30, 2010* [Docket No. 320]; and (3) a \$5,549 reduction offered by PSZJ to resolve the UST’s informal

⁶ This amount reflects a write-off of \$571.57 in expenses billed in the Applicant’s monthly billing statements.

1 objection to PSJ's May, 2010 fees as set forth in the *Amended Certificate Regarding Notice of*
 2 *Second Monthly Interim Fee and Expense Statement for the Period May 1, 2010 Through May*
 3 *31, 2010 of Pachulski Stang Ziehl & Jones LLP* [Docket No. 449]. The fees and expenses
 4 covered by this First Interim Fee Application were incurred from April 20, 2010 through
 5 September 30, 2010 (the "First Interim Fee Period").

6 Pursuant to the Compensation Order, Debtors were previously authorized to pay eighty
 7 percent (80%) of the undisputed fees and one hundred percent (100%) of the undisputed
 8 expenses requested by Applicant in the Monthly Fee Statements filed with the Court [Docket
 9 Nos. 289, 316, 325, 410, 417 and 452]. To date, Applicant has received a total of \$812,643.26
 10 from Debtors, as detailed in the chart set forth above. This First Interim Fee Application seeks
 11 an order approving all fees and expenses as set forth herein and allowing and authorizing
 12 payment of the Requested Compensation, including \$15,491.50 of the \$21,040.50 amount of the
 13 May fees disputed by the UST, the remaining twenty (20%) of the undisputed fees that have not
 14 yet been paid, and 100% of September's monthly fees and costs, totaling \$317,905.69 (the
 15 "Disputed and Holdback Amount").

16 This First Interim Fee Application is based upon the Monthly Fee Statements, and the
 17 Declaration of Ira Kharasch (the "Kharasch Declaration") in support hereof and incorporated for
 18 all purposes herein by this reference, the Compensation Order, all other papers and pleadings
 19 filed in the above-captioned chapter 11 cases (the "Chapter 11 Cases") and upon the following
 20 representations.

21 GENERAL BACKGROUND

22 1. On April 20, 2010 (the "Petition Date"), the Debtors commenced the above-
 23 captioned cases (the "Cases") by filing voluntary petitions for relief under chapter 11 of the
 24 Bankruptcy Code. The Debtors have continued in the possession of their property and have
 25 continued to operate and manage their business as debtors in possession pursuant to sections
 26 1107(a) and 1108 of the Bankruptcy Code. Various professionals have been retained and their
 27 employment has been approved by this Court. On May 24, 2010, the Committee was
 28 appointed. On September 17, 2010, the Court appointed Grant Lyon as Chief Restructuring
 Officer ("CRO") of the Debtors.

1 2. May 21, 2010 Debtors filed their *Motion for Order Pursuant to 11 U.S.C. §§*
 2 *105(a) and 331, Fed.R.Bankr.P. 2016 Authorizing and Establishing Procedures for Interim*
 3 *Compensation and Reimbursement of Expenses of Professionals* (the “Compensation Motion”)
 4 that was heard by the Court on June 2, 2010. The Compensation Order was entered June 17,
 5 2010 and reflects certain limited modifications to the Compensation Motion. As set forth in
 6 the Compensation Order, professional in these Chapter 11 Cases could file with the Court and
 7 submit to Debtors monthly billing statements, defined above as the “Monthly Fee Statements”.
 8 The Debtors were authorized to pay eighty percent (80%) of the undisputed fees and 100% of
 9 the undisputed disbursements requested in such monthly billing statements subject to certain
 10 provisions contained in the Compensation Order.

11 3. Pachulski Stang Ziehl & Jones LLP was retained effective as of April 20, 2010
 12 by this Court’s *Order on Application of Debtors and Debtors in Possession to Employ*
 13 *Pachulski Stang Ziehl & Jones LLP as General Bankruptcy Counsel* [Docket No. 220] dated
 14 June 17, 2010 (the “PSZJ Retention Order”). The PSZJ Retention Order authorized PSZJ to be
 15 compensated on an hourly basis and to be reimbursed for actual and necessary costs and
 16 expenses incurred in connection with these Chapter 11 Cases in accordance with Bankruptcy
 17 Code sections 330 and 331, the Bankruptcy Rules, applicable Local Rules, and any applicable
 18 regulations and orders with respect to the foregoing that may be applicable to these Chapter 11
 19 Cases.

20 **COMPENSATION PAID AND ITS SOURCE**

21 4. All services for which PSZJ requests compensation were performed for or on
 22 behalf of the Debtors in furtherance of the duties and functions of the Debtors.

23 5. Except for the payments received pursuant to the terms of the Compensation
 24 Order, as set forth in the chart above, during the First Interim Fee Period, PSZJ has received no
 25 payment and no promises for payment from any source for services rendered or yet to be
 26 rendered in any capacity whatsoever in connection with the matters covered by this First
 27 Interim Fee Application. Further, there is no agreement or understanding between PSZJ and
 28 any other person for the sharing of compensation to be received for services rendered in these
 Chapter 11 Cases.

FEE STATEMENTS

2 6. PSZJ's Monthly Fee Statements are attached for the Court's convenience
3 collectively as Exhibit 1 to the Kharasch Declaration. The compensation requested by PSZJ is
4 based upon the customary compensation charged by comparably skilled practitioners in cases
5 other than cases under the Bankruptcy Code, and PSZJ respectfully submits that this First
6 Interim Fee Application complies with sections 330 and 331 of the Bankruptcy Code, the
7 Federal Rules of Bankruptcy Procedure, the Guidelines adopted by the Office of the United
8 States Trustee, and the Compensation Order.

ACTUAL AND NECESSARY EXPENSES

10 7. The Monthly Fee Statements attached to the Kharasch Declaration contain a
11 breakdown of the actual and necessary expenses paid by PSZJ during the First Interim Fee
12 period.

13 8. In connection with the reimbursement of actual, reasonable and necessary
14 expenses, it is PSJZ's policy to charge its clients in all areas of practice for expenses, other
15 than fixed and routine overhead expenses, incurred in connection with representing its clients.
16 The expenses charged to PSJZ's clients include, among other things, conference calls and fax
17 machine charges, mail and express mail charges, photocopying charges, out-of-town travel
18 expenses, local transportation expenses, expenses for working meals, computerized research,
19 charges for use of PACER, as well as non-ordinary overhead expenses particularly attributable
20 to an individual client or cases such as secretarial and other overtime.

21 9. PSZJ customarily charges \$0.20 per page for photocopying expenses and \$0.10
22 per page for scanning and printing charges. PSZJ's photocopying machines automatically record
23 the number of copies made when the person that is doing the copying enters the client's account
24 number into a device attached to the photocopier. PSZJ summarizes each client's photocopying
25 charges on a daily basis. Whenever feasible, PSZJ sends large copying projects to an outside
26 copy service that charges a reduced rate for photocopying.

27 10. PSJZ charges \$1.00 per page for out-going facsimile transmissions. Fax receipts
28 are charged at \$0.20 per page, the same cost as PSJZ charges for photocopies.

1 11. PSZJ does not charge for local or long distance calls placed by attorneys from
 2 their offices. PSZJ only bills its clients for the actual costs charged to PSZJ by teleconferencing
 3 services in the event that a multiple party teleconference is initiated through PSZJ.

4 12. Regarding providers of on-line legal research (e.g., LEXIS and Westlaw), PSZJ
 5 charges the standard usage rates these providers charge for computerized legal research. PSZJ
 6 bills its clients the actual amount charged by such services, with no premium. Any volume
 7 discount received by PSZJ is passed on to the client.

8 13. PSZJ believes the foregoing rates are the market rates that the majority of law
 9 firms charge their clients for such expenses. In addition, PSZJ believes that such charges are in
 10 accordance with the American Bar Association's ("ABA") guidelines, as set forth in the
 11 ABA's Statement of Principles, dated January 12, 1995, regarding billing for disbursements
 12 and other charges.

SUMMARY OF SERVICES RENDERED

14 14. PSZJ has generally advised and assisted the Debtors in connection with, but not
 15 limited to, the following:

16 (a) obtaining approval of emergency motions filed the first day of these Chapter
 17 Cases, including, but not limited to, the interim approval of the contested cash
 18 collateral motion;

19 (b) preparation of post-petition budgets,

20 (c) litigation with Deutsche Bank over the use of its cash collateral and the
 21 interim resolution of same, including a massive discovery project;

22 (d) preparation of schedules, statements of financial affairs and monthly
 23 operating reports;

24 (e) the sale of certain property;

25 (f) the employment of various professionals, including a financial advisor, real
 26 estate brokers, special counsel and accountant;

27 (g) general business matters;

28 (h) disputes with the Committee and lenders over the management fee paid to a
 non-debtor affiliate;

- (i) negotiations with the Committee over the extension of the exclusive period in which only the Debtors may file a plan of reorganization;
- (j) the appointment of a CRO;
- (k) working with the Debtors' financial advisor regarding the valuation of their loan and REO portfolio and identifying sources of new capital;
- (l) development and negotiation of the terms of a plan of reorganization with the Committee and other key parties in these Chapter 11 Cases;
- (m) preparation of a disclosure statement;
- (n) creditor and investor relations;
- (o) the preparation of other various papers and pleadings in these Chapter 11 Cases on behalf of the Debtors;
- (p) general discussions and negotiations regarding matters in these Chapter 11 Cases with the Committee as well as other constituents; and
- (q) such other legal services as requested or directed by the Debtors.

15. Specifically, PSJZ has performed all necessary professional services described and identified in detail in the Monthly Fee Statements.

SUMMARY OF SERVICES BY CATEGORY

16. To provide an orderly and meaningful summary of the services rendered by PSZJ on behalf of the Debtors, PSZJ has established the following separate project billing categories in connection with these cases:

TASK CODE	DESCRIPTION
AA	Asset Analysis
AD	Asset Disposition
BL	Bankruptcy Litigation
CA	Case Administration
CF	Committee Formation
CO	Claims Administration/Objection

	TASK CODE	DESCRIPTION
1	CP	Compensation of Professionals
2	CPO	Compensation of Professionals (Other)
3	DBL	Deutsche Bank Litigation
4	EC	Executory Contracts
5	FF	Financial Filings
6	FN	Financing
7	GB	General Business Advice
8	GC	General Creditors' Committee
9	LN	Litigation (Non-Bankruptcy)
10	MC	Meeting of Creditors
11	OP	Operations
12	PC	Pachulski Compensation
13	PD	Plan and Disclosure Statement
14	PR	Pachulski Retention
15	RP	Retention of Professionals
16	RPO	Retention of Professionals (Others)
17	TR	Travel

19 17. The following summary is intended to highlight a number of the services
 20 rendered by PSZJ in the separate project billing categories where PSZJ expended a
 21 considerable number of hours on behalf of the Debtors. It is not meant to be a detailed
 22 description of all of the work performed by PSZJ during the First Interim Fee Period. Detailed
 23 descriptions of the day-to-day services provided by PSZJ and the time expended performing
 24 such services in each project billing category are fully set forth in the Monthly Fee Statements
 25 attached as Exhibit 1 to the Kharasch Declaration. Such detailed descriptions indicate the
 26 actual services performed and the attorneys and paraprofessionals who rendered services
 27 related to each of the task codes set forth above are identified. The descriptions also
 28 demonstrate that PSZJ was heavily involved in the performance of services for the Debtors on

1 a regular basis, including late night/early morning, holiday, and weekend work that was often
 2 performed under extreme time pressure to meet the needs of the Debtors in these Chapter 11
 3 Cases.

4 A. Asset Analysis

5 Fees: \$9,927.00 Total Hours: 15.70

6 This category pertains to the identification and review of potential assets including causes
 7 of action and non-litigation recoveries. PSZJ collected and analyzed information regarding
 8 certain of the Debtor's loans and REO properties.

9 B. Asset Disposition

10 Fees: \$25,030.00 Total Hours: 35.40

11 This category includes, but is not limited to, communications with the Debtors, brokers,
 12 potential purchasers, other of the Debtors' professionals and the Committee related to the
 13 marketing and sale of certain REO properties and the drafting of the sale motion.

14 C. Bankruptcy Litigation

15 Fees: \$117,098.50 Total Hours: 161.80

16 This category includes, but is not limited to, preparation of the motions to limit notice,
 17 the joint admin motion and the motions to shorten notices on those motions as well as the cash
 18 collateral motion; the preparation of service lists; the preparation and attendance at the hearing
 19 on the "First Day" motions as well as hearings on June 2nd, June 22nd, July 19th, September 2nd
 20 and September 17th; work regarding disputes with US Bank, Deutsche Bank and the
 21 Committee regarding the management agreement and related confidentiality agreements;
 22 drafting of the confidentiality agreements; dealing with discovery related disputes; and
 23 communications, both written and oral, internally, with the Debtors, counsel for the
 24 Committee, counsel for Deutsche Bank and other interested parties.

25 D. Case Administration

26 Fees: \$8,757.00 Total Hours: 28.20

27 This category includes administrative matters, including, without limitation, reviewing
 28 the docket; creating and maintaining service lists, maintaining a critical dates calendar for the
 case; communicating with the Court, the Trustee, the Debtors, other professionals and other case

1 constituents and interested parties regarding issues relating to the administration of the case; and
2 performing other miscellaneous services related thereto.

3 D. Committee Formation

4 Fees: \$165.00 Total Hours: .20

5 This category includes time spent regarding the formation of the committee.

6 E. Claims Analysis/Objection

7 Fees: \$21,741.00 Total Hours: 27.80

8 This category includes the review and analysis of various claims, including the potential
9 Ledgemont claim; addressing the validity and priority of liens allegedly held by Deutsche Bank
10 and others; and communications related thereto.

11 F. Compensation of Professionals

12 Fees: \$13,765.00 Total Hours: 19.80

13 This category includes time spent preparing an interim compensation procedures motion,
14 reviewing and revising the monthly fee statements, drafting monthly fee applications, reconciling
15 PSZJ's retainer and first monthly fee application, and addressing the UST's objections to the
16 April and May fee applications.

17 G. Compensation of Professionals (Others)

18 Fees: \$386.00 Total Hours: ..60

19 This category includes internal communications regarding the interim fee procedures,
20 review of fees of other professionals, communications with the UST and the Debtors regarding
21 professional fees, and communications with the Debtors regarding the application of retainers.

22 H. Deutsche Bank Litigation

23 Fees: \$275,270.50 Total Hours: 418.60

24 This category includes, among other things, (1) handling and coordinating the massive
25 document production request from Deutsche Bank regarding the use of its cash collateral,
26 including, but not limited to, the development of an electronic discovery protocol, the review of
27 thousands of documents, the preparation of a privilege log, drafting an objection to certain of the
28 requests, and communicating internally and with the Debtors, Nevada counsel for the Debtors,
corporate counsel for the Debtors, counsel for Deutsche Bank, counsel for the Committee and

1 others regarding the production, (2) preparing for a three day deposition of the Debtors' CEO,
 2 attending the deposition, reviewing the rough and final transcripts of the deposition, and
 3 communicating internally and with the Debtors, Nevada counsel for the Debtors, corporate
 4 counsel for the Debtors, counsel for Deutsche Bank, and counsel for the Committee and others
 5 regarding the deposition, (3) dealing with confidentiality issues related to the discovery, (4)
 6 addressing the numerous concerns and complaints of Committee counsel related to the
 7 discovery, (5) analyzing the costs of the discovery and possible methods to curtail such costs, (6)
 8 dealing with discovery disputes, (7) analyzing the underlying reasons for the discovery and how
 9 to resolve those issues, (8) and reviewing the numerous documents produced by Deutsche Bank
 10 related to their alleged liens and collateral. The discovery conducted by Deutsche Bank
 11 substantially exceeded the issues specific to the Cash Collateral Motion. Deutsche Bank sought
 12 discovery regarding valuation of all of the assets pledged under its securitized note program; as
 13 well as how those assets were pledged and the perfection of their interests. All parties, and the
 14 Court, recognized that the discovery of these broader valuation issues was relevant to the
 15 ultimate issues in the case, and therefore discovery was allowed to proceed in this fashion.

16 I. **Executory Contracts**

17 Fees: \$420.00 Total Hours: .60

18 This category includes communications internally and with the Debtors regarding the
 19 deadline for assumption of real property leases.

20 J. **Financial Filings**

21 Fees: \$64,497.50 Total Hours: 168.10

22 This category includes time spent preparing the Debtors' schedules of assets and
 23 liabilities and statements of financial affairs, including amendments thereto, as well as the review
 24 of the Debtors' monthly operating reports.

25 K. **Financing**

26 Fees: \$203,248.50 Total Hours: 293.30

27 This category includes work performed with respect to the use of cash collateral and
 28 financing issues, including, but not limited to, analysis of the validity and priority of liens;
 review and extensive communications with the Debtors, the secured lenders and others related to

1 the budget and the revisions thereto; gathering and analysis of facts for the motion to use cash
 2 collateral and the preparation of the motion; analysis of the objections to the cash collateral
 3 motion and drafting the replies to those objections; research various issues related to the use of
 4 cash collateral and drafting memos related thereto; analysis of collateral valuations and
 5 preparation of charts related thereto; responding to the inquiries of the counsel for the secured
 6 lenders and the Committee regarding the cash collateral motion and the budgets and amended
 7 budgets; drafting the stipulation with US Banks; drafting the orders on the cash collateral
 8 motion; preparing the cash collateral settlement agreement with Deutsche Bank and the related
 9 partial withdrawal of the cash collateral motion; preparing status reports for the Court on the use
 10 of cash collateral; and analysis of and communications internally and with the Debtors, Imperial
 11 and Committee counsel regarding DIP financing and a motion to prime existing secured lenders.

12 L. General Business Advice

13 Fees: \$167,318.00 Total Hours: 214.40

14 This category includes, but is not limited to, time spent preparing task lists for internal
 15 calls and weekly calls with the Debtors; participation in weekly calls with the Debtors addressing
 16 various general business issues, discussing various strategies for upcoming hearings and
 17 attending board meetings; preparation for meetings with the board of directors; attending
 18 meetings with the board; preparing a confidentiality agreement to be used with potential
 19 investors or lenders and addressing issues related to same; internal discussions related to the
 20 status of various pending case matters and strategies related thereto; discussing various
 21 restructuring possibilities with the board; addressing various management matters, including, but
 22 not limited to, the possibility or restructuring the board and the appointment of a CRO.

23 M. General Creditors' Committee

24 Fees: \$23,473.00 Total Hours: 33.30

25 This category relates to addressing general issues raised by the Committee. PSZJ, among
 26 other things: (i) attended meetings with the Committee to address various issues and concerns;
 27 and (ii) participated in Committee status calls.

28 N. Litigation (Non-Bankruptcy)

 Fees: \$3,905.00 Total Hours: 5.80

1 This category includes time spent responding to issues relating to various State Court
2 actions and the potential removal of certain of those actions .

3 O. Meeting of Creditors

4 Fees: \$2,886.00 Total Hours: 3.60

5 This category includes time incurred in connection with preparation of and attendance at
6 the 341(a) Meeting of Creditors.

7 P. Operations

8 Fees: \$37,463.00 Total Hours: 48.60

9 This category includes time spent advising the Debtors with respect to various day-to-day
10 operations of its business, including, but not limited to issues related to their bank accounts,
11 various assets, cash reports due to US Bank and other reporting issues, appraisal issues, the
12 retention of a compensation consultant, Jordenelle issues, and budget inquires.

13 Q. Pachulski Compensation

14 Fees: \$70.50 Total Hours: .30

15 This category includes time spent relating to services provided in connection with PSZJ's
16 monthly fee statements.

17 R. Plan and Disclosure Statement

18 Fees: \$22,273.00 Total Hours: 34.20

19 This category includes, but is not limited to, the analysis of various plan issues, drafting a
20 memorandum on cram down, drafting a motion and order to extend exclusivity and addressing
21 objections thereto, and drafting a disclosure statement.

22 S. Pachulski Retention

23 Fees: \$4,127.00 Total Hours: 8.80

24 This category includes time spent relating to the preparation of PSZJ's employment
25 application.

26 T. Retention of Professionals

27 Fees: \$2,727.00 Total Hours: 4.60

28 This category includes time spent on the preparation PSZJs employment application and
supplemental disclosures.

U. Retention of Professionals (Others)

Fees: \$82,336.000 Total Hours: 139.40

This category includes the preparation of applications to retain (i) Imperial Capital LLC to evaluate the Company's existing asset portfolio, future prospects as a going concern and strategic alternatives, (ii) Polis & Associates as special counsel, (iii) New West Development as Real Estate Consultant, (iv) various real estate brokers, and (v) Moss Adams LLP as Accountants, Auditors and Tax Return Preparers. PSZJ also spent time reviewing and addressing objections to various employment applications.

V. Travel

Fees: \$10,072.00 Total Hours: 27.20

This category relates to travel time to and from hearings. Travel time has been billed at $\frac{1}{2}$ the regular hourly billing rate.

VALUATION OF SERVICES

18. PSZJ has extensive experience and knowledge in the field of debtors' and creditors' rights and business reorganizations under chapter 11 of the Bankruptcy Code, including familiarity with the facts and circumstances surrounding these Chapter 11 Cases. As such, PSZJ is uniquely qualified to represent the Debtors' interests with respect to Debtors' businesses and financial affairs and the potential legal issues that may arise in these Chapter 11 Cases.

19. PSZJ believes that every professional employed on behalf of a debtor in a chapter 11 case has a responsibility to control fees and expenses by providing services in an efficient and effective manner. To this end, PSZJ diligently worked to coordinate and facilitate the efficient prosecution of the matters for which it was employed. Staffing of matters within these Chapter 11 Cases is done with the objective of providing the level of representation appropriate to the significance, complexity, or difficulty of the particular matter. On certain occasions, when more than one attorney attended a meeting or hearing, the attendance was necessary to adequately represent the interests of the Debtors and provide the context from which appropriate advice and counsel could be given. Moreover, given the nature of these

1 Chapter 11 Cases, PSZJ has taken great care to coordinate with the other professionals to
 2 ensure there has been no duplication of effort on any task.

3 20. PSZJ reviews all client billings for reasonableness and makes adjustments so
 4 that the charges are consistent with the value of the services provided. As set forth above,
 5 PSZJ, prior to filing its Monthly Fee Statements, voluntarily reduced its fees during the First
 6 Interim Fee Period by \$59,490.50.

7 21. The hourly rates charged are PSZJ's normal hourly rate for work of this type in
 8 chapter 11 cases. PSZJ charges hourly rates that are similar to those rates charged by
 9 comparable law firms for similar legal services. PSZJ's blended hourly rate, not including
 10 paraprofessionals, during this First Interim Fee Period was \$692.61. PSZJ's combined blended
 11 hourly rate, including attorneys and paraprofessionals during this First Interim Fee Period was
 12 \$648.97.

13 22. PSZJ's attorneys and paraprofessionals have expended a total of 1,690.30 hours
 14 rendering professional services to or on behalf of the Debtors in connection with these Chapter
 15 11 Cases during the First Interim Fee Period, as detailed in Summary of Professionals charts
 16 set forth above. The nature of the work performed by these individuals is summarized above
 17 and fully set forth in the Monthly Fee Statements attached as Exhibit 1 to the Kharasch
 18 Declaration. The reasonable value of the professional services rendered by PSZJ to or on
 19 behalf of Debtors during the First Interim Fee Period is \$1,093,940.00.

20 23. As mentioned above, however, the UST informed PSZJ that the UST objected
 21 to certain of PSZJ's May, 2010 fees related to the employment of New West, to the "First
 22 Day" motions related to limiting notice in these Chapter 11 Cases, and to the negotiation of
 23 certain confidentiality agreements. PSZJ and the UST discussed the objections and PSZJ
 24 believed all of the UST's questions related to the "First Day" motions were resolved, however,
 25 because the objections were informal, PSZJ requested that the UST indicate the specific time
 26 entries to which the UST objected. Upon receipt of that information from the UST, PSZJ
 27 noted that the UST had indicated only \$11,098.00 of fees, all related to the employment of
 28 New West, as disputed. Although PSZJ does not agree with the UST's assessment of the
 questioned time entries, PSZJ offered to discount its fees by \$5,549 in order to resolve the

1 UST's concerns. PSZJ did not receive a response to its proposal. In preparing to file the
2 certificate regarding the May fee application, the Debtors' Nevada counsel was informed by
3 the UST that it disputed \$21,040.50 of the May fees, however, it has never indicated to PSZJ
4 what additional time entries are in dispute. PSZJ has discounted its May fees by \$5,490.00 in
5 this Application in an attempt to resolve any continuing issues the UST with those fees. The
6 total fees being requested for the First Interim Fee Period are, therefore, \$1,088,391.00

7 24. In accordance with the factors enumerated in section 330 of the Bankruptcy
8 Code, it is respectfully submitted that the Requested Compensation is fair and reasonable given
9 (a) the complexity of these Chapter 11 Cases, (b) the time expended, (c) the nature and extent
10 of the services rendered, (d) the value of such services, and (e) the costs of comparable services
11 in a case other than under this title and, therefore, should be approved.

12 **CONCLUSION**

13 **WHEREFORE**, PSZJ respectfully requests that the Court enter an order approving the
14 allowance and authorizing Debtors' payment to PSZJ of the interim compensation in the amount
15 of \$1,088,391.00 in fees incurred for necessary professional services rendered and \$42,157.95
16 (less write-offs) as reimbursement of actual, reasonable and necessary costs and expenses paid
17 during the First Interim Fee Period from April 20, 2010 through September 30, 2010, for a total
18 of \$1,130,548.95 of which only the Disputed and Holdback Amount of \$317,905.69 remains
19 unpaid as not previously authorized under the Compensation Order, and for such other and
20 further relief as the Court may deem just and proper.

21 DATED: November 16, 2010

PACHULSKI STANG ZIEHL & JONES LLP

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23 By: /s/ Ira D. Kharasch
24 Ira D. Kharasch
Counsel for the Debtors and Debtors in Possession

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